www.GOP.gov
LEGISLATIVE DIGEST
HOUSE REPUBLICAN CONFERENCE
CHAIRMAN ADAM PUTNAM WASHINGTON D.C. 226-2302

January 17, 2007

Floor Prep

H.R. 5 – College Student Relief Act of 2007

Floor Situation:

H.R. 5 will be considered under a closed rule with three hours of debate equally divided and one motion to recommit with instructions.

H.R. 5 has not been considered by any authorizing committee in the 110th Congress.

Background:

The Federal Family Education Loan (FFEL) program was created as part of the Higher Education Act of 1965. This program provides loans to students from private sources of capital. It was created to give students access to loans at an interest rate lower than what the market would otherwise provide.

In 1993, amendments to the Higher Education Act created a second student loan program, the William D. Ford Direct Loan program. Unlike the FFEL program, the Direct Loan program provides loans to students using capital directly from the U.S. Treasury.

More students receive loans from the FFEL program than from the Direct Loan program. In 2004, for example, the FFEL program provided loans to slightly more than 9.5 million students while the Direct Loan program provided loans to a little more than 3 million students. Both programs are entitlements.

There are four types of loans available under both the FFEL program and the Direct Loan program: subsidized Stafford loans, unsubsidized Stafford loans, PLUS loans, and Consolidation loans.

Both subsidized and unsubsidized Stafford loans have a fixed rate of 6.8 percent and are available to undergraduate as well as graduate students. To qualify for a subsidized Stafford loan, a student must demonstrate financial need. The benefit of a subsidized Stafford loan is that the government covers interest payments while the student is enrolled in school. Unsubsidized Stafford loans do not have this benefit and do not require a demonstration of financial need.

Graduate students and parents of dependent students may qualify for PLUS loans regardless of financial need. The fixed interest rate is 7.9 percent under the Direct Loan program and 8.5 percent in the FFEL program. Consolidation loans allow borrowers to consolidate a number of loans and extend their repayment period with a fixed rate based on the weighted average of outstanding loans rounded up to the nearest one-eighth of 1 percent.

H.R. 5 would impact the interest rate on subsidized Stafford loans for undergraduate students only. The other three types of loans are specifically exempted from an interest rate reduction by the legislation. Extending interest rate reductions to PLUS loans, Stafford unsubsidized, and consolidation loans would have increased the cost of the legislation, which under "PAYGO rules" would require larger offsets.

The table below shows the history of the interest rate for Stafford loans.

Stafford Loan Interest Rates 1965 - 2006

Disbursement period	Interest rate in effect
November 8, 1965 - August 2, 1968	6% fixed rate
August 3, 1968 - December 31, 1981	7% fixed rate
January 1, 1981 - June 30, 1988	9% fixed rate
July 1, 1988 - September 30, 1992	8% fixed rate for first 48 months; 10% fixed rate for remaining repayment period
October 1, 1992 - June 30, 1994	91-day T-bill + 3.1%; capped at 9%
July 1, 1994 - June 30, 1995	91-day T-bill + 3.1%; capped at 8.25%
July 1, 1995 - June 30, 1998	91-day T-bill + 2.5% for in-school, grace or deferment periods; 91-day T-bill + 3.1% for repayment periods; capped at 8.25%
July 1, 1998 - June 30, 2006	91-day T-bill + 1.7% for in-school, grace or deferment periods; 91-day T-bill + 2.3% for repayment periods; capped at 8.25%
On or after July 1, 2006	6.8% fixed rate

Table from CRS Report RL33673

H.R. 5 would gradually reduce the interest rate for subsidized Stafford loans to 3.4 percent, while leaving the interest rate for unsubsidized Stafford loans unchanged. To qualify for a subsidized Stafford loan, a student must establish financial need, but H.R. 5 does not means test the rate reduction based on income after college.

During the FY 06 budget process, Congress considered ways to achieve savings from entitlement spending. The Deficit Reduction Act of 2005, signed into law on February 8, 2006, reduced entitlement spending by $39 billion over five years. $11.9 billion of this savings, or approximately 30 percent of the total savings from the Deficit Reduction Act, came from student loan provisions.

Summary:

<u>Interest Rate Reduction</u>

H.R. 5 reduces the interest rate on subsidized, undergraduate Stafford student loans (both for the FFEL program and the Direct Loan program) from 6.80 percent to 3.40 percent. The rate reduction is phased in and temporary under the following schedule (Section 2):

1) 6.80 percent from July 1, 2006 to June 30, 2007.

2) 6.12 percent from July 1, 2007 to June 30, 2008.

3) 5.44 percent from July 1, 2008 to June 30, 2009.

4) 4.76 percent from July 1, 2009 to June 30, 2010.

5) 4.08 percent from July 1, 2010 to June 30, 2011.

6) 3.40 percent from July 1, 2011 to December 31, 2011.

7) 6.80 percent beginning January 1, 2012.

**Note: The reduced interest rate does not apply to PLUS loans, consolidation loans, or unsubsidized Stafford loans.*

<u>Cuts to the FFEL program</u>

H.R. 5 offsets the cost of the interest rate cut with a number of reductions in subsidies to private lenders under the Federal Family Education Loan (FFEL) program. The bill specifically:

- Reduces from 97 percent to 95 percent the lender insurance percentage effective July 1, 2007, which is the amount that lenders receive from the federal government for student loans that go into default. (Section 3).

  **Note: The House-passed version of the Deficit Reduction Act of 2005 cut the lender insurance percentage from 98 to 96 percent. The final legislation enacted into law reduced the lender insurance percentage from 98 percent to 97 percent.*

- Lowers guarantee collection agency fees from 23 percent to an eventual 16 percent over the following timeline (Section 4):

    1) To 20 percent from October 1, 2007 to September 30, 2008.

    2) To 18 percent from October 1, 2008 to September 30, 2010.

    3) To 16 percent after October 1, 2010.

  **Note: The House-passed version of the Deficit Reduction Act of 2005 contained a provision to lower from 23 percent to 20 percent.*

- Eliminates the Exceptional Performer Status for Lenders program effective July 1, 2007. (Section 5)

  **Note: The Deficit Reduction Act lowered the Exception Performer benefit from 100 percent coverage to 99 percent, to go along with the reduction in the lender insurance percentage.*

- Reduces the Special Allowance Payment (SAP) by one tenth of a percentage point effective July 1, 2007. An exemption is provided for the smallest lenders who make up the lowest 10 percent of cumulative volume in the student loan market. (Section 6)

  **Note: For loans in repayment, this means a reduction in the special allowance payment from the three-month commercial paper (CP) rate + 2.34 percent to CP + 2.24 percent. For loans during the in-school period, this means a reduction from CP + 1.74 percent to CP + 1.64 percent. And for PLUS and consolidation loans, this means a reduction from CP + 2.64 percent to CP + 2.54 percent.*

- Increases lender loan fees from 0.5 percent to 1.0 percent beginning July 1, 2006. (Section 7)

  **Note: The House-passed version of the Deficit Reduction Act of 2005 contained this provision.*

- For lenders with 90 percent or more of their holdings in consolidation loans, the annual consolidation fee increases to 1.30 percent from 1.05 percent. (Section 8)

  **Note: The House-passed version of the Deficit Reduction Act of 2005 contained this provision.*

Additional Information:

CRS Report: Student Loans and FY 2006 Budget Reconciliation

CRS Report: Federal Family Education Loan Program and William D. Ford Direct Loan Program Student Loans: Terms and Conditions for Borrowers

Staff Contact:
For questions or further information contact Brad Watson at (202) 226-2302.